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Carol S. White
Manager, C&LM Services
Eastern Utilities
750 West Center Street
P. O. Box 543
West Bridgewater, MA 02379
January 27, 2000

RE: Eastern Edison Company, D. T. E. 97-91

Dear Ms. White:

On October 8, 1999, Eastern Edison Company ("EECo" or "Company") filed with the Department of Telecommunications and Energy ("Department") a report titled "Earned C&LM Shareholder Incentives-1998" ("Report"). The purpose of the Report is to recalculate the Company's 1998 energy efficiency shareholder incentive, based on EECo's actual performance in implementing its energy efficiency programs during 1998 (Report at 1-2). The Report states that the recalculation of the 1998 incentive is consistent with the settlement agreement governing the Company's Five-Year Energy Efficiency Plan, approved in Eastern Edison Company, D. P. U. /D. T. E. 97-91 (1998) ("Settlement") (i.d.). The Company adds that the Report is supported by all of the signatories to the Settlement, (1) except for the Attorney General, who did not express a position on the Report (Cover Letter at 1). The Company responded to four information requests issued by the Department. (2)

The Report states that, based on actual performance, the Company is entitled to earn a 1998 shareholder incentive equal to \$986,281, as compared to the maximum incentive level of \$1,014,100 that was included in the Settlement (Report at 1-2). (3) The Department notes that greater than 95 percent of the Company's 1998 shareholder incentive (4) is based on the energy savings levels achieved through the Company's energy efficiency programs, as specified in the Report (Report at Attachment 3). Based on our review of the Company's filing, the Department finds that the savings levels included in the Report are sufficiently reliable. Therefore, the Department accepts these savings levels and approves the 1998 shareholder incentive included in the Report.

The Department identifies, however, two shortcomings in the Company's calculation of its 1998 energy savings levels. First, the Company used certain information in these calculations that was based on impact evaluations and other studies conducted during years as early as 1993 (e.g., savings achieved through the installation of energy

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efficient refrigeration, variable speed drives, air compressors) (IR-DTE-2-1, at 7). Second, the Company used one study (for savings achieved through the installation of thermostats) that was conducted by a utility located outside of the New England region (id.). Consistent with our precedent, the Department encourages the Company to use recent studies conducted by other utility companies (or groups of utility companies) in New England for this purpose, where that course of action is appropriate. Therefore, although the Department accepts the use of these studies for the purpose of calculating the Company's 1998 savings levels, we direct the Company to use more recent studies, and studies that are regionally-based, in the determination of future savings levels.

Sincerely,

James Connelly, Commissioner

Paul B. Vasington, Commissioner

W. Robert Keating, Commissioner

Eugene J. Sullivan, Jr., Commissioner

cc: Mary Cottrell

Service List

1. The signatories to the Settlement are the Company, the Division of Energy Resources, the Attorney General, the Conservation Law Foundation, the National Consumer Law Center, the FAP/WAP Provider Network, the Northeast Energy Efficiency Council, and Enron Energy Services.
2. The Department, on its own motion, moves the Report and Company's responses to the Department's information requests into the record of this proceeding.
3. The maximum incentive level included in the Settlement was based on the Company achieving "stretch" performance levels established for each of the Company's energy efficiency programs.
4. The 1998 shareholder incentive has two components: (1) \$944,094, based on savings achieved in "Company Specific Initiatives"; and (2) \$42,187, based on the Company's performance in "Regional Initiatives" (Report at Attachment 3).